

Message Text

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ACTION ARA-20

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TAGS: ECON, ETRD, EIND, CU, AR

SUBJECT: ARGENTINE TRADE WITH CUBA--INVOLVEMENT OF US SUBSIDIARIES

REFS: A. BUENOS AIRES 436, B. BUENOS AIRES 283

SUMMARY. BANK OF AMERICA BRANCH IN BUENOS AIRES HAS BEEN ASKED BY FIAT CONCORD ARGENTINA TO PARTICIPATE IN "PRE EXPORT FINANCING" OF EQUIPMENT DESTINED TO CUBA. US LEGISLATION ON CUBAN ASSETS CONTROL APPEARS PRESENT PROBLEM FOR BANK OF AMERICA WHICH IS EXPECTED TO BE UNDER PRESSURE FROM ARGENTINE FIRMS AND GOA TO ACT AS OTHER BANKS OPERATING IN ARGENTINA IN THIS TYPE TRANSACTION. EMBASSY PROVIDES BACKGROUND AND SOME CRITERIA FOR USE BY USG AGENCIES. ISSUE MAY ADD COMPLICATIONS TO PROBLEM INVOLVING US SUBSIDIARY FIRMS IN ARGENTINA NOW THAT ARGENTINA APPEARS DETERMINED PUSH TRADE WITH CUBA. END SUMMARY

1. AMCIT, LOCAL MANAGER BANK OF AMERICA, VISITED ECONOMIC COUNSELOR MARCH 14 TO CONSULT CONCERNING PROBLEM FACED BY BANK OF AMERICA WHICH SEES ITSELF BECOMING INVOLVED IN DIFFICULT SITUATION ARISING FROM US LEGISLATION REGARDING CUBAN ASSETS CONTROLS AND ARGENTINE TRADE WITH CUBA. HE DESCRIBED SITUATION AS FOLLOWS: FIA CONCORD ARGENTINA (FIATARG) HAS SIGNED LIMITED OFFICIAL USE

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SEVERAL LARGE CONTRACTS TO PROVIDE AUTOMOBILES, TRUCKS AND RAILWAY

LOCOMOTIVES TO CUBA. FIATARG IS LONGTIME, IMPORTANT LOCAL CLIENT FOR B OF A, AND HAS APPROACHED B OF A WITH CONCRETE PROPOSAL REQUESTING ASSIST IN PREFINANCING CREDIT FOR EXPORT SALES TO CUBA. B OF A LOCAL OFFICES HAVE BEEN TOLD FROM NEW YORK OFFICES THAT TREASURY REGULATIONS PROHIBIT SUCH ACTIVITY. B OF A LOCAL MANAGER CONCERNED OVER POSSIBLE LOSS IMPORTANT FIATARG ACCOUNT FOLLOWED BY BAD NAME FOR B OF A AMONG GOA OFFICIALS AND POSSIBLE DISCRIMINATION DETRIMENTAL TO B OF A.

2. B OF A IS AWARE THAT FIATARG SEEKING LARGE AMOUNTS "EXPORT PREFINANCING" TO SUPPORT EARLIEST PRODUCTION AND DELIVERY OF LARGE CONTRACTS REPORTED REFTELS. WITHOUT BEING CERTAIN OF AMOUNT, B OF A BELIEVES TOTAL APPROACHES PESO EQUIVALENT OF US\$10 MILLION. B OF A BEING ASKED TO PROVIDE PESO EQUIVALENT OF \$645,000.

3. B OF A MANAGER REQUESTED EMBASSY'S ADVICE AND WAS TOLD:

A. EMBASSY NOT IN POSITION INTERPRET APPLICABLE TREASURY REGULATIONS;

B. B OF A SHOULD ASK HOME OFFICES TO CONSULT WITH US TREASURY OR FOREIGN ASSETS CONTROL DIVISION, FRB, NEW YORK;

C. LOCAL B OF A COULD, THROUGH, THIS PROCESS, STALL FOR TIME, AND CLARIFICATION OF REGULATIONS DETERMINING FUTURE POSSIBILITIES FOR B OF A ACTION, WITHOUT DRAWING SERIOUS ONUS WHICH MIGHT BE ATTACHED TO ANY CLEAR-CUT IMMEDIATE REFUSAL TO CONFORM WITH FIATARG REQUEST. HE AGREED, STATED HE INTENDED TO FOLLOW THAT COURSE OF ACTION, AND PROMISED WOULD KEEP EMBASSY ADVISED CONCERNING PRESSURES OR SIGNS OF URGENCY RECEIVED FROM GOA, CENTRAL BANK AUTHORITIES OR FIATARG.

4. PURPOSE OF THIS MESSAGE IS TO INFORM DEPARTMENT AND OTHER USG AGENCIES CONCERNING POSSIBLE PROBLEM. BANK OF BOSTON AND FIRST NATINAL CITY MANAGERS HAVE ANTICIPATED A SIMILAR PROBLEM BUT HAVE NOT YET INFORMED EMBASSY OF CONCRETE CASE. EMBASSY BELIEVES IT IS LIKELY THAT US TREASURY AND FRB OFFICES DEALING WITH CUBAN ASSETS CONTROL WILL RECEIVE INQUIRIES, REQUESTS FOR CLARIFICATION OF APPROPRIATE REGULATIONS AND, POSSIBLY, REQUESTS LIMITED OFFICIAL USE

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FOR RULINGS THAT SUCH OPERATIONS DO OR DO NOT FALL WITHIN TYPE OF FINANCIAL OPERATIONS PROHIBITED TO FOREIGN SUBSIDIARIES US BANKS.

5. IN ORDER TO ASSIST US AGENCIES IN CONSIDERING POSSIBLE REPLIES TO US BANKERS, EMBASSY FEELS IT SHOULD POINT OUT THAT CENTRAL BANK CIRCULAR B-777, DATED 31 DEC 70, ESTABLISHED A SYSTEM, APPLICABLE TO ALL BANKS OPERATING IN ARGENTINA, THROUGH

WHICH ARGENTINE PRODUCERS OF "PROMOTED" MANUFACTURED EXPORTS COULD SECURE SPECIAL LOANS (TERMS UP TO ONE YEAR, THOUGH NORMALLY 180 DAYS, AT INTEREST RATES OF 8 PERCENT OR LESS) TO FINANCE OPERATIONS IN THE PRODUCTION PERIOD. THIS SYSTEM WAS INTENDED TO BE AND HAS PROVEN TO BE A STRONG STIMULUS FOR ARGENTINE MANUFACTURERS TO COOPERATE IN THE GOA'S DRIVE TO EXPAND AND DIVERSIFY EXPORTS. DURING THE PERIOD SINCE THE CIRCULAR WAS ISSUED, REGULAR BANK LOAN RATES HAVE VARIED FROM NEAR 20 PERCENT TO OVER 30 PERCENT. THE SYSTEM PROVIDES THAT WHEN THE EXPORT ORDER IS DULY DOCUMENTED, THE ELIGIBLE BORROWER MAY RECEIVE SUCH CONCESSIONAL LOANS FOR UP TO 65 PERCENT OF THE VALUE OF THE EXPORT ORDER PLUS TRANSPORTATION COSTS. THE LOANS, OF COURSE, ARE EXTENDED AND REPAYED IN PESOS. THE EMBASSY BELIEVES IT IS AN IMPORTANT POINT THAT SINCE THE SO-CALLED NATIONALIZATION OF DEPOSITS IN AUGUST 1973, ALL BANKS OPERATING IN ARGENTINA ARE EXTENDING LOANS BASED, NOT ON THEIR OWN FUNDS, BUT ON THE ALLOCATED ADVANCES AND RE-DISCOUNT FUNDS MADE AVAILABLE TO THEM BY THE CENTRAL BANK. THEIR USE OF THESE RESOURCES IS ALMOST COMPLETELY CONTROLLED BY DIRECTIVES OF THE CENTRAL BANK WHICH REQUIRE THAT SPECIFIED PERCENTAGES BE LOANED TO SPECIAL SECTORS AND FOR SPECIAL PURPOSES UNDER RIGID SELECTIVE CREDIT CONTROLS. IN THE EMBASSY'S VIEW, THERE IS CONSIDERABLE DOUBT THAT ANY LENDING OPERATION OF A US BANK DOING BUSINESS IN ARGENTINA CAN BE INTERPRETED AS A FREE DECISION OF THE BANK'S OFFICIALS.

6. DESPITE THE ABOVE, WE REALIZE THAT IT MIGHT BE ARGUED THAT THE US BANKS OPERATING IN ARGENTINA MUST OR SHOULD SEEK TO DEVOTE THE REQUIRED AMOUNT OF EXPORT PROMOTION CREDITS WHICH THEY MUST HANDLE TO CLIENTS OR OPERATIONS NOT INVOLVING TRADE TO CUBA. WE HAVE NO RELIABLE GUIDE WITH WHICH TO DETERMINE THE DEGREE OF FLEXIBILITY AVAILABLE TO ANY ONE BANK OR THE US BANKING GROUP AS A WHOLE.

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7. SHOULD US BANKS OPERATING IN ARGENTINA BE FORCED INTO THE POSITION OF REFUSING TO HANDLE OPERATIONS SUCH AS THAT DESCRIBED IN THE INITIAL PARAGRAPHS OF THIS MESSAGE, SUCH ACTION WOULD FURTHER EXACERBATE THE NEAR CONFRONTATION IN OUR BILATERAL RELATIONS THAT STEMS FROM THE NEW ARGENTINE TRADE WITH CUBA.

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